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Managing other people's money: Financial services in sub-Saharan Africa after structural adjustment

Agriculture as an asset class: Investment funds' role in the South African agricultural sector

Antoine Ducastel & Ward Anseeuw



Summary

- Context
- Investment funds in (South) African agriculture: an overview
- Producing the (South) African agriculture asset class: the African intermediaries' role
- Conclusion: What financialisation is it the name?

Context

- The multiple food-energy-climate-finance crisis (Margulis, 2013)
- Increasing competition around natural resources control (i.e. farmland)
- The (financial) rising of Africa (Vallée, 2011)

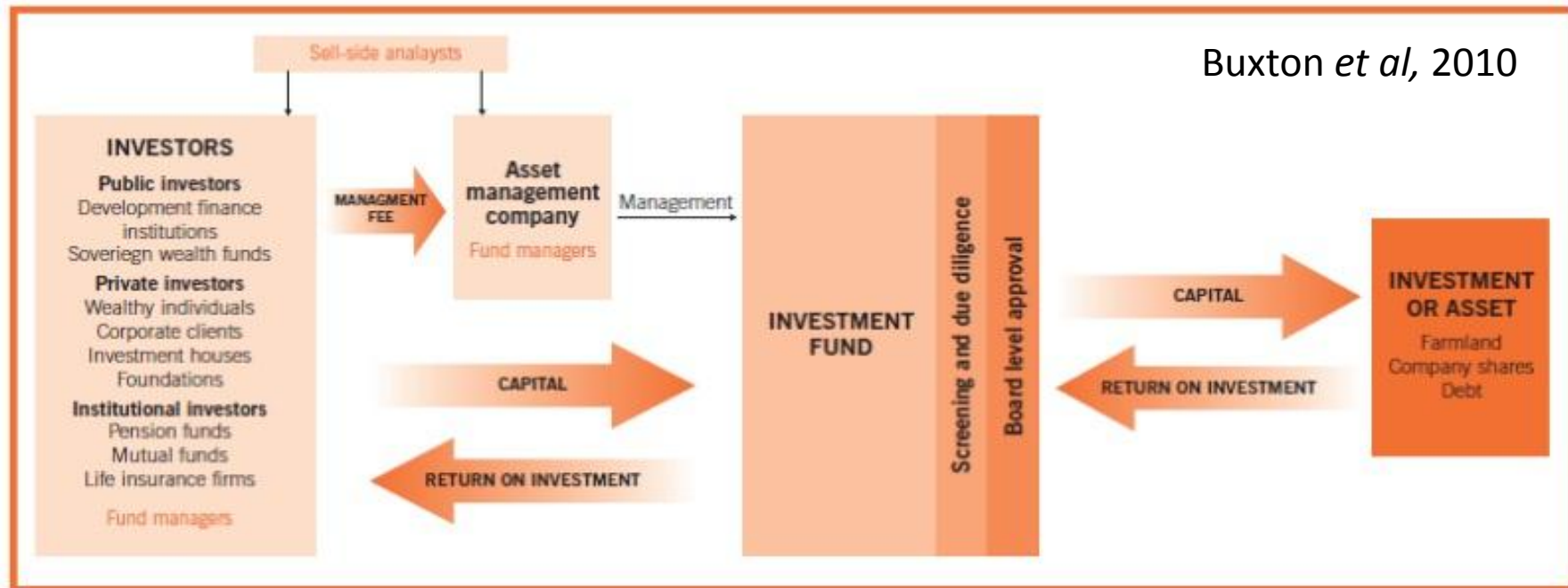




Agriculture as an opportunity for financial markets

- Increasing interest from financial markets for agricultural investment:
 - Long-term macroeconomic fundamentals (i.e. rising food prices)
 - Specific historical returns on land investment (i.e. US)
 - A mix of current income and capital appreciation
 - Uncorrelated returns with the equities/bonds market
 - A strong hedge against inflation
- Three investments' options:
 - Commodity future contracts or index funds
 - Public companies' equities related to agriculture
 - Farmland
- African agriculture as a « frontier » market

Investment funds in (South) African agriculture: investor(s) and manager




- Plurality of investors
- Delegation of management to a fund manager
- An investment fund as a negotiation entity between these two groups of actors for the control of internal resources



Investment funds in (South) African agriculture: Structures and management

- Diversity of funds' structures and management strategies:
 - Fund status & life-span (i.e. Private equity, Holding company, Property trust, Exchange traded fund, etc.)
 - Specialized or generalist fund
 - Strategic asset allocation (i.e. green/brown investment, « sheer asset »/diversification along the value chain or among crops)
 - Geographical targets (i.e. country, region, continent, emergent market)
 - Governance organization (i.e. disclosed/non-disclosed fund, remuneration & bonus)



Producing the (South) African agriculture asset: « unlocked » the financial value

- An asset as a value recognized by financial markets:
 - Financial beliefs (i.e. outperformed the average profit, liquidity)
 - Financial devices (i.e. calculation devices)
- African intermediaries'/fund managers' roles:
 - Mediating the supply and demand
 - Translating capital and ressources
- How such intermediaries “frame” the (South) African agriculture to produce a new asset class?
 - 3 steps toward a profitable, predictable and liquid asset

1. Mitigate the risks

« Unlock » the financial value through risk mitigation:

- Natural risks (i.e. flood, drought)
 - Multi-peril insurances and geographical diversification
- Market risks (i.e. prices volatility)
 - Commodities exchange (e.g. South African Futures Exchange)
- Human resource risks (i.e. decentralization)
 - Contracting model: « network organization »
 - Advanced technologies (e.g. precision farming): centralized management
- Illiquidity risks (i.e. immobility, taxation)
 - Bilateral double taxation agreements

DFI's multiform support: financial participation, technical assistance facilities, institutional support

2. The production of an information flow

- The corporate finance instruments: The Discounted Cash Flow model (DCF)
 - Calculation
 - Implementation in the (South) African agriculture
- A standardized benchmarks (a common metric) for financial markets:
 - Decision making support
 - To compare and evaluate the assets' profitability and their complementarity in a portfolio



3. The neutralization of social « interferences »

- « Conform » the social reality to financial models:
 - Example of occupiers
- The « depolitization » as a attempt to unlock the financial value: remove competing land value conceptions
- The fund manager as a political entrepreneur
- Limits and constraints of the translation process: Indigenous capital vs. Reputational risk



A financialisation process?

- Mediation: fund manager as « brokers in financialisation »
- Translation: financial instruments and « bottom up » financialisation
- Abstraction & categorisation: asset-fiction
- Valuation process; both evaluation and valorization (Vatin, 2013)
- A new channeling power in agriculture:
 - Corporate farming
 - Contracting model



Thank you

Antoine Ducastel
Antoine.ducastel@cirad.fr